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E.O. 11652: GDS

TAGS: ENRG

SUBJECT: FINANCING ITALIAN NUCLEAR PROGRAM

REF: 1)OECD PARIS 30112, AND 30113;

2) STATE 274012

OECD PARIS FOR ASSISTANT SECRETARY ENDERS AND BOSWORTH

1. QUESTIONS REGARDING THE ITALIAN FINANCIAL PLAN FOR THEIR 20,000 MW NUCLEAR PROGRAM REGARD MAINLY GENERAL PREMISE ABOUT NECESSITY OF U.S. FINANCING FOR INCREMENTAL PORTION OF LARGER NUCLEAR PROGRAM AND REALISM OF ITALIAN COST ESTIMATES. AS MENTIONED REF 2, ITALIAN COST PROJECTIONS SEEM LOW FOR LATTER STAGES TEN YEAR PROGRAM WHEN BULK OF
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CONSTRUCTION TO TAKE PLACE. ALSO ITALIANS HAVE STILL NOT

MADE ANY ECONOMIC CASE THAT INCREMENTAL FINANCING WILL NOT BE AVAILABLE IN ITALY AND/OR EUROPE AND THAT IT SHOULD COME FROM U.S. SOURCES. THEIR RATIONALE FOR THIS STILL BASED ON POLITICAL GROUNDS ONLY, I.E. THAT CONSUMER COOPERATION ENTAILS FOR THEM A LARGER NUCLEAR PROGRAM THAN WOULD HAVE OTHERWISE HAVE BEEN ENVISAGED -- WITH CONCOMMITANT POLITICAL RISKS -- AND THAT, IN LINE WITH CONCEPT OF SHARING OF BENEFITS AND COSTS OF CONSUMER COOPERATION, U.S. SHOULD FINANCE THAT PART OF COST OF NUCLEAR PROGRAM WHICH IS INCREMENTAL TO WHAT ITALY WOULD OTHERWISE HAVE DONE.

2. AFTER NOVEMBER 14 TECHNICAL LEVEL MEETING WE ARE STILL NOT CONVINCED THAT THE ITALIANS UNDERSTAND THE EXTENT OF LIKELY CONCERN ABOUT CREDITWORTHINESS OF BORROWER OR OF THE DETAIL ON THEIR PROGRAM AND ON ENEL THAT WILL BE REQUIRED BY PRIVATE U.S. FINANCIAL INSTITUTIONS AS WELL AS EXIM WHEN CONSIDERING LOAN POSSIBILITIES. NOR DO WE BELIEVE THAT THEY REALIZE THAT U.S. PRIVATE FINANCIAL INSTITUTIONS ARE UNLIKELY TO AGREE TO ESTABLISHMENT OF A \$3.4 BILLION LINE OF CREDIT BUT WILL WANT TO EXAMINE EACH PROJECT SEPARATELY AS ITALIANS MOVE THROUGH PROGRAM.

3. THUS QUESTIONS FOR MIGLIUOLO SHOULD CENTER ON ABOVE CONCERNS. WE SUGGEST FOLLOWING:

A. ARE THERE ECONOMIC ASSUMPTIONS BEHIND ITALIAN DESIRE TO FINANCE \$3.4 BILLION OF NUCLEAR PROGRAM COSTS FROM U.S. SOURCES, I.E. PROJECTED CAPITAL AVAILABILITIES IN ITALY AND EUROPE?, IMPACT ON INTEREST RATE IN ITALY?, IMPACT ON ITALIAN CAPITAL FORMATION AND GROWTH RATE?

B. HOW HAVE ITALIANS ESTIMATED COST? WHAT ARE BASES OF CALCULATIONS THAT COST PER KW WILL BE \$800 (\$700 FOR PLANT AND \$100 FOR FUEL) DURING WHOLE PROGRAM? SIMILAR PROGRAMS IN OTHER COUNTRIES SHOWN SIGNIFICANTLY HIGHER COSTS PROJECTIONS IN EARLY 1980'S.

C. HAVE ITALIANS MADE ALTERNATIVE COST PROJECTIONS? UNDER DIFFERENT, HIGHER COST PROJECTIONS, WHAT WOULD EXTERNAL CAPITAL REQUIREMENTS BE?

D. HAVE THEY FOCUSED ON WHAT PRIVATE U.S. LENDERS THEY WISH TO APPROACH? HAVE THEY YET FORMULATED IDEAS AS TO MIX OF THEIR DESIRED U.S. BORROWING BETWEEN BANKS AND OTHER FINANCIAL INSTITUTIONS.

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E. WHAT PORTION OF THE COSTS PROJECTED IN EACH YEAR TILL 1985 WOULD BE FOR U.S. EXPORTS THAT EXIM WOULD BE ASKED TO FINANCE.

F. WHO WILL BE BORROWER, ENEL, IMI, OR OTHER? IS ITALIAN GOVERNMENT PREPARED TO GIVE GUARANTEE.

G. CAN THEY IDENTIFY TYPES OF FINANCING THEY LOOK FOR FROM U.S. I.E., FOR PLANT AND EQUIPMENT, FOR FUEL, FOR FUEL FABNICATION, FOR ARCHITECTURAL SERVICES?

4. WE WILL HAVE MUCH MORE PRECISE QUESTIONS ABOUT ENEL FINANCES WHEN WE CAN EXAMINE ENEL FINANCIAL STATEMENT FOR 1973 AND 1974. THESE HAVE BEEN PROMISED US, AND IT WOULD BE HELPFUL IF THE ITALIANS COULD GET THEM TO US PRIOR TO DECEMBER 5 MEETING OF MIGLIUOLO WITH CASEY (SEE SEPTAL)

5. YOU MAY WANT TO TELL MIGLIUOLO THAT WE BELIEVE THE NOVEMBER 14 TECHNICAL LEVEL MEETING WENT WELL AND PROVIDED US WITH A GREAT DEAL OF CLARIFICATION OF THE ITALIAN

FINANCIAL PLAN. WE SUSPECT THAT MUCH MORE DETAIL ON ALL ASPECTS WILL BE NECESSARY WHEN THEY TALK TO PRIVATE LENDERS. THIS IS SUBJECT THAT MIGLIUOLO MAY WANT TO DISCUSS IN DETAIL WITH CASEY AT DECEMBER 5 MEETING. KISSINGER

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